

RSCC REPORT June 2008 Draft

PURPOSE: BASED ON THE INFORMATION BELOW, A COMPREHENSIVE AND COORDINATED PLAN WILL BE DEVELOPED TO INCREASE RAIL SERVICE COMPETITION IN THE STATE

Forest, Paper, and Industrial Products Shipping:

A. Title: Improving access for forest, paper and industrial products to Southern markets via UP, CP and/or other rail service access.

Description: Work to address issues and obstacles to expanded rail access to Southern and Intermountain West markets for Montana's forest, paper, and industrial products with the goal of making these products more competitive.

Barriers: Identified barriers: "paper barriers" including contractual and regulatory issues and the problems being created by changing Federal regulation.

- **"Paper Barriers":** While the physical linkages between railroad lines already largely exist to provide for improved market access, contractual and regulatory issues between carriers and between carriers and industrial consumers create major obstacles to expanding market access.
- **Federal Regulation Changes:** Major changes in Federal regulation presently under consideration may significantly alter the nature of this problem.

Benefits of increased competition:

- **Improved Competitiveness:** Overcoming these barriers and creating improved rail access for Montana's forest, paper, and industrial products will make those products more competitive and foster improved growth in these industries.
- **Reduced reliance on truck carriers:** Creating expanded rail access to southern markets will reduce truck traffic on Montana's highways and possibly reduce product costs related to rising fuel costs for the trucking industry.

Implementation Needs: Improved understanding of the "paper barriers", acquiring expertise to address these issues, and improving communication between the state, industrial consumers and the rail service providers are seen as key needs.

- **Understanding "paper barriers":** Understanding the nature of contractual agreements between the various rail service providers in the

state (primarily BNSF and the MRL and other short line carriers) needs to happen. Issues to be considered should address what role, if any, the state can play in negotiating contracts, creating incentives and addressing regulatory issues to overcome these “paper barriers”.

- **Acquiring expertise:** The commission needs to access expertise from successful models from surrounding states facing similar concerns. Particularly North and South Dakota and Wisconsin have addressed similar obstacles successfully.
- **Improving communication:** The commission needs to determine what role, if any, state government can play in expediting communication between rail service providers and industrial consumers beginning with improved communication with the UPRR.

Estimated Costs: Unknown at this time.

Ports/Intermodal Shipping:

B. Title: Enhance access to intermodal rail service available to Montana consumers.

Description: Work to address issues and obstacles to expanded intermodal rail service in Montana. Intermodal refers to the transportation of freight in the same container between modes (ship-rail-road) reloading freight at each juncture.

Barriers: Identified barriers include the limited amount of current intermodal volume, the access of Montana industries to sufficient containers, and the limited incentives in place encouraging rail providers to extend intermodal services to the state.

- **Limited volumes:** BNSF prefers a minimum of 220 containers or 110 railcars per week and also prefers that all containers go to the same port or destination. So far in-state shippers have not been able to create the volume necessary to meet this level of demand.
- **Access to containers:** Containers for intermodal transport are not readily available in the state in sufficient numbers to attract industries and businesses.
- **Limited incentives:** There are few if any incentives for rail providers to consider expanding intermodal access to the state’s shippers.

Benefits: Renewing and expanding intermodal service for Montana businesses and industry would provide access to new markets and increase the volume of both inbound and outbound commodities.

Implementation Needs:

- **Identify market thresholds:** The commission needs to identify the market thresholds necessary to renew and expand intermodal services from both the rail service providers and the container providers.
- **Seek creative solutions to the container shortage:** Investigate the possibility of using salvaged containers, trailer-on-flatcar configurations, encouraging short line carriers to create intermodal loading centers, and/or acquiring a state fleet of containers.
- **Create incentives:** Encourage entities involved such as carriers, container providers, and/or the Montana Board of Investments to invest in solutions.

Estimated Costs: Unknown at this time.

Agricultural Products Shipping:

C. Title: Enhance access for agriculture commodities shippers to rail service.

Description: Montana's agricultural producers need enhanced access to continental rail service providers for their commodity crops. In addition producers of specialized and identity-preserved crops need enhanced access to intermodal shipping for their products.

Barriers:

- **Limited access to shipping for agricultural commodity crops:** Class one railroads want a minimum of 110 cars per run. Limited and now almost non-existent loading facilities make it hard for producers to get crops to loading facilities without using long-haul trucking.
- **Limited access to intermodal shipping options:** Railroads need sufficient loads to justify intermodal service while growers need rail transportation options

Benefits:

- **Improved market access:** Improving access to rail service for Montana's agriculture producers will in turn improve the market access for these products both nationally and internationally.
- **Reduced truck traffic:** Improving access to rail service will also reduce truck traffic on Montana's highways which are presently being negatively impacted by high fuel costs.
- **Improved competitiveness:** Improving access to rail service for Montana's agriculture producers will help to make the state's products more competitive.

Implementation Needs:

- **Enhancing rail access to UP and CP:** Study ways to build and/or gain access to UP and CP loading facilities via alternative rail connections.
- **Motivate Class 1 Carriers to improve intermodal access:** Find incentives to influence Class 1 carriers to improve intermodal access for specialized agriculture products.
- **Explore successful models:** Explore successful models for expanding intermodal rail service in Canada and North Dakota.
- **Haulage rights:** Study what successful models from other states in addressing haulage rights for Montana producers.
- **State Rail Authority:** Consider establishing a state rail authority to deal with rail service providers and producers.
- **Revisit "Common Carrier Obligations":** Congress is presently revisiting the definition of what constitutes a "reasonable" request for services which the RSCC should monitor closely.

Estimated Costs: Unknown at this time.

Coal Shipping:

D. Title: Keeping Montana's Coal competitive in the U.S. and Around the World.

Description: Montana's Coal producers, both existing and new, will need ready access to both local, short line rail service, and national rail service in order to remain competitive in booming national and international markets.

Barriers: Emerging coal producers including those in the Roundup area will need newly constructed rail links to get their coal to market while existing and re-opening mines will need more readily available and less costly rail service to keep their coal competitive.

- **New construction:** The present need for new rail services and the impending need for BNSF to address growing capacity demands for coal shipping are creating a prohibitive barrier to the expansion of Montana's growing coal industry.
- **The Surface Transportation Board:** So far the STB has apparently been unwilling to move toward addressing issues directly and indirectly affecting the cost of Montana's coal causing it to remain less competitive in global markets.
- **Challenges of growing markets on both coasts:** The rising national and international demand for coal makes it essential for Montana's coal producers to be able to meet market demand on both coasts. At the present time BNSF is the sole carrier for Montana's coal and nearly all of its coal shipments are eastbound.
- **Other factors:** Does the combination of coal production costs, fees and taxes, and the high cost of shipping coal via BNSF making Montana's coal non-competitive in current markets?

Benefits of increased competition:

- **Opportunities for expansion:** The present demand makes Montana's coal a premium resource for the state if ways can be created with both existing and new mines and rail service providers to control costs and to move the state's coal to markets on both coasts and abroad.
- **Opportunities to market high quality coal:** Coal production in the Roundup area can bring much needed and much sought-after high-quality coal to both national and international markets.

Implementation Needs: Addressing the need for expanding the present rail capacities and building new rail capacities to bring Montana's coal to markets as competitively as possible is essential.

- **Study needs and capacities:** Studies are indicating the capacity for coal shipments provided via BNSF will need considerable expansion in the

next ten to fifteen years. The need for new spur construction connecting new mining operations to rail service is also a growing concern.

- **Addressing the apparent inaction of the STB:** It may become necessary for the RSCC to bring federal legislative pressure on the STB in order to begin addressing concerns about shipping rates, etc.
- **Accessing growing markets on both coasts:** Improved rail service will be essential in developing markets for Montana's coal in the east and through west coast ports to markets in China and India.
- **Identify the impact of Montana's Coal Severance Tax on the competitiveness of Montana's coal:** It will be essential to create quantifiable data on the total delivered cost of Montana's coal as compared with other states like Wyoming.

Estimated Costs:

- Legislation would probably cost over a million dollars.
- Analyzing multiple components of cost of production and transportation to the delivery of coal to final destination of coal: \$27,500
- Analyzing differentials in other costs related to coal production: \$13,000

Formal Public Comment Period on the RSCC Report

The following comments were made from the public regarding the above information:

Mark Cole, Dick Irvin, Inc., Shelby:

- It would be expensive and a logistical nightmare to try to utilize nontraditional container shipments.
- Success is not evident in Canada.
- There is a difference between contract carriers and common carriers.
- Capacity issues exist from Seattle to Tacoma and other areas.

Barbara Ranf, BNSF:

- BNSF would be very interested in the capacity study from MDT and would be willing to work on capacity issues. The Billings to Glendive line is near capacity due to coal movement. Barbara looks forward to working with the follow-up of this report.

Will Rowe, MGGA:

- Sometimes the issue is not availability, but rate. There is a need to separate if the service is not available or is it cost prohibitive? Are we discussing rate or availability, i.e., with wheat – it is a rate issue.
- Regarding intermodal needs, it is more of a service issue for wheat. For lumber, coal and ag it is more of a rate issue. They are correlated but have a different priority for different industries.

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